the guaranty plus costs or expenses shall be paid to the lender up to the amount of the lender's losses. Any residue from collection shall go to the borrower.

[57 FR 46473, Oct. 8, 1992]

### § 103.37 Default on insured loans.

Within 45 calendar days after the occurrence of a default of a loan made under the provisions of an insurance agreement, the lender shall notify the Commissioner by certified or registered mail giving the name of the borrower, insurance agreement number, amount of unpaid principal, amount of delinquent principal, accrued interest unpaid to date of notice, amount of delinquent interest and description of default. Within 60 calendar days after default on an insured loan, the lender shall proceed as prescribed in paragraph (a) or (b) of this section unless it has requested, and the Commissioner has approved, an extension of time. A request for an extension of time will explain the necessity for an extension and the estimated date on which action will be initiated. Failure of the lender to proceed within 60 calendar days or the extended time approved by the Commissioner, will be grounds for the Commissioner to terminate the loan insurance on the loan involved.

(a) The lender and borrower may agree upon an extension of the repayment terms of a loan or other forbearance for the benefit of the borrower. However, such forbearance will not be extended if it will increase the likelihood of a loss on a loan. Insured loans made under the provisions of a general insurance agreement authorizing a lender to make loans under the terms prescribed in the agreement will not require Commissioner approval of changes in agreements made by the lender and borrower. Provided, such changes are in compliance with the requirements of § 103.21 and the applicable sections referred to therein. The lender shall immediately notify the Commissioner within 21 calendar days of changes made in the agreement. Insured loans made which originally required the issuance of a separate insurance agreement by the Commissioner will require Commissioner approval of changes in the provisions of such loans.

(b) If an insured lender determines that proceeding under paragraph (a) of this section is contrary to its customary lending practices or is not in the interest of a borrower, it will be required to exhaust all reasonable efforts to collect the loan and to liquidate the security to the fullest extent feasible before submitting a claim for reimbursement of a loss.

(c) If a lender proceeds under the provisions of paragraph (b) of this section and suffers a loss, it may submit a claim for reimbursement for unpaid principal and interest on a form furnished by the Commissioner and will furnish any additional information needed to establish the amount of the claim. Claims will be submitted to the Commissioner within 45 calendar days after completion of the procedures prescribed in this section. All claims shall be accompanied by evidence showing that all reasonable efforts to collect the loan have been exhausted and that security given for the loan has been liquidated to the extent feasible. If the Commissioner agrees that a loss has occurred, he will reimburse the lender pursuant to the terms of the approved insurance agreement under which the loan was insured. Upon reimbursement by the Commissioner to the lender in whole or in part for the loss insured, the note and security for the loan or judgment evidencing the debt shall be assigned to the United States. The lender shall have no further claim against the United States or the borrower. The Commissioner will then take such further collection action as may be warranted. The Commissioner may establish a date upon which accrual of interest or charges shall cease.

### § 103.38 Subrogated and assigned rights.

The Commissioner will take such action as he deemed appropriate to realize the maximum recovery upon the rights to which the United States is subrogated and the security assigned to the United States. Any amount collected will be deposited in the loan guaranty and insurance fund.

[40 FR 12492, Mar. 19, 1975. Redesignated at 47 FR 13327, Mar. 30, 1982, as amended at 57 FR 46474, Oct. 8, 1992]

### § 103.39 Cancellation.

The Secretary may cancel the uncollectable portion of any obligation assigned to the United States or rights to which the United States is subrogated and the security assigned to the United States.

[54 FR 34976, Aug. 23, 1989]

### § 103.40 Charges upon liquidation.

Lenders may charge the following against the gross amounts collected from the sale of security in determining the amounts to be claimed under a guaranty certificate or insurance agreement:

(a) Reasonable and necessary expenses for preservation of the security.

(b) Court and attorney costs in a foreclosure or proper judicial proceeding involving the security.

(c) Other reasonable expenses necessary for collecting the debt or for repossession, protection, and liquidation of the security.

(d) Other expenses or fees approved in advance by the Commissioner.

(e) Accrued unpaid interest to the date of judgment and decree of foreclosure or sale, or the date established by the Commissioner that accrued interest shall cease pursuant to §§ 103.36 and 103.37.

### § 103.41 Interest.

Interest rates charged by lenders on guaranteed and insured loans, exclusive of loan service charges, if any, shall not exceed such percent per annum on the principal obligation outstanding as the Commissioner determines to be reasonable and legal at the time a loan is guaranteed or insured, taking into account the range of rates prevailing in the private market for similar loans and the risks assumed by the United States. Each loan shall show the rate of interest to be charged. Interest shall be payable at least annually. Once a loan is closed the interest rate may not be increased except when a variable interest rate tied to a specified base rate agreed upon by the borrower and the lender has been approved by the Commissioner. Lenders may not charge interest on loan funds used for payment of loan service charges.

[40 FR 12492, Mar. 19, 1975. Redesignated at 47 FR 13327, Mar. 30, 1982, as amended at 54 FR 34976, Aug. 23, 1989]

### § 103.42 Interest subsidy.

(a) The Commissioner may pay an interest subsidy to lenders on loans which are guaranteed or insured under this part 103 at rates which are necessary to reduce the interest rate payable by the borrowers to a rate determined in accordance with title I, section 104, of the Indian Financing Act of 1974 (Pub. L. 93–262, 83 Stat. 77). The rate of subsidy will be established by the Commissioner at the time of issuance of a guaranty certificate or insurance agreement on loans requiring approval by the Commissioner. Interest subsidy payments by the United States shall be discontinued on such loans if the lender elects to discontinue the guaranty or insurance or causes the termination of the guaranty or insurance by failure to make premium payments as required by § 103.43, or when one of the following occurs:

(1) The loan is paid in full prior to the expiration of the original term.

(2) The loan is refinanced by a new loan.

(3) The repayment schedule on the principal balance owing is extended beyond the original term, unless an exception is approved by the Commissioner. The interest subsidy shall only be discontinued as to the balance which has been extended beyond the original term of the loan.

(4) The lender on a defaulted loan is reimbursed for a guaranteed or insured loss. The date of the check shall be the date of reimbursement.

(5) Cash flow form the business being financed appears sufficient to pay for full debt service based on periodic review by the Commissioner. Cash flow shall be deemed sufficient to pay debt service when earnings before interest and taxes, after adjustments for extraordinary items, equal or exceed industry norms.